paulin

Annual Report 2001 • H.Paulin & Co., Limited

Company Profile

- H. Paulin & Co., Limited was founded in 1920 by Harry Paulin.
- The Company is a leading manufacturer and distributor of fasteners, fluid system products, automotive parts and screw machine components.
- Manufacturing processes include Cold Heading, Nut Forming, Metal Stamping, Screw Machine, Adhesive Coating and Packaging.
- All divisions are ISO 9002 registered and in addition Capital Metal Industries, Jeyco Machine Products and Long-Lok Canada are QS 9000 certified.
- Typical industries served are automotive, both OEM and aftermarket, industrial, retail hardware and agricultural.
- Distribution facilities are located in Vancouver, Edmonton, Winnipeg, Toronto, Montreal, Moncton and Cleveland, Ohio.
- All manufacturing facilities are located in Ontario, Canada.
- Paulin is a public company and its common shares are listed and traded on The Toronto Stock Exchange under the symbol PAP.A.

Multi-die cold forming technology

Table of Contents

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Financial Highlights

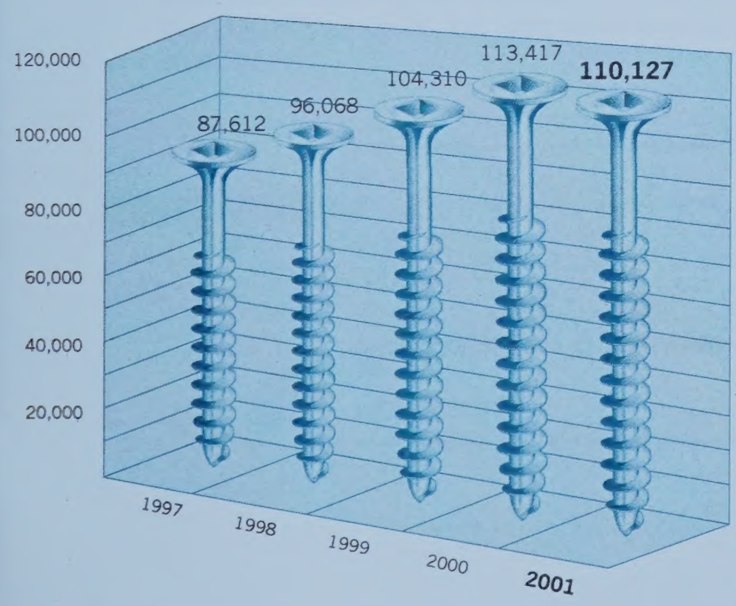
(in thousands of dollars, except per share amounts)

Results	2001	2000
Sales	**$ 110,127**	$ 113,417
EBITDA [1]	**$ 8,243**	$ 8,913
Net Income	**$ 3,204**	$ 3,976
Dividends	**$ 420**	$ 462
Working Capital	**$ 26,216**	$ 25,939
Total Assets	**$ 63,227**	$ 62,341
Shareholders' Equity	**$ 32,479**	$ 29,695
Cash Flow from Operations	**$ 4,994**	$ 5,623
Per Share Data [2]		
EBITDA [1]	**$ 7.85**	$ 8.49
Net Income	**$ 3.05**	$ 3.79
Dividends	**$ 0.40**	$ 0.44
Shareholders' Equity	**$ 30.93**	$ 28.28
Cash Flow from Operations	**$ 4.76**	$ 5.36
Ratios		
Return on average equity	**10.3%**	14.2%
Current ratio	**2.1**	2.0
Debt to equity	**47%**	53%

[1] Earnings before interest, taxes, depreciation and amortization

[2] Based on 1,050,000 shares outstanding

Annual Sales $ (000's)



Earnings per Share

Message to Shareholders

Despite the difficult economic conditions experienced in North America in 2001, H. Paulin & Co., Limited enjoyed a very satisfactory year. Sales declined 3% to $110.1 million with net income falling 19% to $3.2 million. Dividends were reduced by 10% from $0.44 per share to $0.40 per share, reflecting the lower earnings.

Many of our customers in the industrial and automotive markets experienced serious double digit declines in revenues, as an already slowing economy was further weakened by the tragic events of September 11th. All operating divisions within Paulin were adversely affected by these conditions. On a positive note, sales to the Do-It-Yourself hardware market continued to grow as a result of increased market share and strong housing sales.

In spite of the challenges encountered in 2001, the Company did not compromise its core principles. First, a belief and confidence in our people. Notwithstanding the difficult months of 2001, the Company continued to maintain its full complement of staff. We are confident that this decision will provide benefits to the Company in the future. Second, we continued our commitment to a strong capital investment strategy to help lower production costs, raise quality and expand our manufacturing capabilities. During the past year over $3.5 million was invested in these projects. We expect these actions to support our growth in the future.

We are proud of what we accomplished in 2001. I would like to thank all of our employees, customers and suppliers who had to work under greater pressure this past year. I would also like to thank our directors for their guidance and advice and our shareholders for their continued loyalty and support.

Richard Paulin

Richard Paulin
President
May 10, 2002

Management's Discussion and Analysis

The Company services three major markets:

1. Automotive (original equipment and aftermarket)
2. Industrial (distributor and original equipment)
3. Do-It-Yourself Hardware (wholesalers and Big Box stores)

In 2001 the automotive market suffered significant production declines. As a result, all of our manufacturing divisions experienced lower volumes, lower prices and higher quality demands resulting in lower gross margins. The industrial market also suffered as reduced exports to the United States of office furniture, agricultural machinery and telecommunication equipment resulted in lower demand for fasteners. Only industries related to the housing and construction markets saw increased volumes. Despite the negative conditions, each of our divisions took action to strengthen their long-term performance.

Results of Operations

Sales for the year ended December 31, 2001 were $110.1 million, down 3% compared to $113.4 million the previous year. Despite strong sales to the retail hardware market, the serious decline in automotive production and the general downturn within the industrial market were too severe, resulting in an overall decrease in sales.

Gross Profit (income from operations before selling, general and administrative charges, depreciation and interest) fell 6% to $22.9 million from $24.3 million in 2000. As a percent to sales, gross profit decreased to 20.8% from 21.3%. This decrease was the result of lower margins in our manufacturing operations caused by reduced production volumes, downward pressure on prices, moving expenses and higher utility costs.

Selling and administrative expenses were reduced $722,000 or 5% to $14.6 million from $15.4 million in 2000. Increases in marketing and office costs were more than offset by a reduction in bad debt expenses and administrative expenses.

Earnings before interest, taxes, depreciation and amortization (EBITDA) were down 8% to $8.2 million from $8.9 million in 2000 and down 5% from $8.6 million in 1999. Interest expenses climbed to $1.2 million from $1 million in 2000, but were down from $1.3 million in 1999. A reconciliation of EBITDA to net income is as follows:

	2001	2000
EBITDA	$8.2 million	$8.9 million
Interest	1.2	1.0
Taxes	2.0	2.5
Depreciation and amortization	1.8	1.4
NET INCOME	$3.2 million	$4.0 million

Although the easing of interest rates during the year had a positive impact on our borrowing costs, the average loan outstanding climbed, resulting in the increase in interest costs for the year.

Depreciation expense was up $363,000 or 25% over 2000 as over $3.5 million was invested in new capital assets.

The effective income tax rate was 39%, up slightly from 38.3% the previous year and down from 41.1% in 1999.

Net income was $3.2 million, down 19% compared to $4.0 million in 2000 and down 7% to the $3.5 million earned in 1999. Earnings per share amounted to $3.05 versus $3.79 in 2000 and $3.29 in 1999.

Cash Flow

For 2001, cash flow from operations and before changes in working capital was $5.0 million, down 11% from the $5.6 million generated in 2000 and off 4% from $5.2 million in 1999. Operating cash flow per share was $4.76 as compared to $5.36 in 2000 and $4.97 in 1999. The reduction in cash flows was the result of lower earnings and future income taxes more than offsetting the increased depreciation expense.

Cash flow was reduced by a net increase in the non-cash components of working capital of $521,000. Accounts receivable fell $1.4 million as compared to 2000 as a result of lower sales and as the previous year's receivables had included a sale / leaseback receivable amount. Inventories increased by $843,000 to $32.8 million to support new sales programs, higher customer service levels and longer lead times from overseas suppliers. Accounts payable dropped $1 million to $13.5 million from $14.5 million in 2000 and $13.0 million in 1999.

Financial Position

Working capital was $26.2 million, up from $25.9 million in 2000 and $24.3 million in 1999. Current ratio was up to 2.1:1 from 2.0:1 in 2000 and 2.17 in 1999.

During 2001, cash dividends of $420,000 or $0.40 per share were paid to shareholders, down from $462,000 or $0.44 in 2000. Payments of $352,000 were made towards long-term debt as compared to $350,000 in 2000 and $351,000 in 1999.

Capital expenditures in 2001 totaled $3.5 million and were used to acquire new manufacturing equipment, upgrade operating facilities and provide improved information technology systems. Total capital investments have exceeded $13 million over the last five years.

Bank indebtedness decreased $193,000 to $9.4 million from $9.6 million in 2000. The financial position of the Company remains strong as debt represented 47% of shareholders' equity as compared to 53% the previous year. Current bank operating lines are adequate and the Company does not hold or issue financial instruments for trading purposes.

Risk Management

The markets in which Paulin operates are highly competitive. Competitors range in size from large national corporations to relatively small regional companies. Some of the competitors may have greater financial and other resources than the Company.

An economic slowdown would have a downward impact on results. Since approximately 62% of the Company's debt is at floating rates, an exposure to interest rate fluctuations exists. The Company also purchases many of its products worldwide and, therefore, can be affected by currency fluctuations.

Manufacturing

The Company has a number of operations specializing in the following manufacturing processes:

- Cold Heading and Nut Forming
- Precision Turned Products
- Metal Stamping
- Processing and Coatings
- Packaging

Cold Heading and Nut Forming

The cold forming operations manufacture bolts, screws, nuts, spacers and special fasteners primarily from steel, brass, copper and stainless steel. In 2001, new nut formers, cold headers and nut tappers were installed, expanding capacity and improving production efficiencies. New vision and laser inspection equipment was installed, further enhancing our ability to provide 100% quality to our customers.

Precision Turned Products

Precision turned products are manufactured from bar stock on multi-spindle, C.N.C. (Computer Numeric Control) and rotary transfer machines. Parts are manufactured from steel, brass, aluminum, stainless and nylon to very exacting tolerances.

In May, 2001 this operation moved into new, larger state-of-the-art facilities. A new 16 station / 45 mm rotary transfer machine was installed along with additional secondary equipment, further expanding our production capabilities. Although this business faces new competitive pressures from cold forming facilities which are able to convert screw machined parts to lower cost cold formed parts, we believe the business is well positioned for further growth in 2002.

Metal Stamping

The stamping division has production capability up to 160 tons, utilizing metals from .005 through ¼" thick. Standard products manufactured include our line of Easy Spot® weld nuts, leg levelers, washers, automotive shims and custom specials. The stamping operation continued its program of improved machine utilization through in-house rebuilding programs and ergonomic / environmental improvements including new high-density lighting. New products such as aluminum leg levelers and the introduction of a new Easy-Spot® weld fastener catalogue released late in the year should provide momentum for 2002 sales.

Processing and Coating

This operation applies locking and sealing compounds to threaded fasteners to prevent loosening and to allow ease of assembly. Major processes include the insertion of a nylon strip or the application of a micro-encapsulated adhesive or sealant to external or internal threads in order to make the fastener or fitting self-locking or self-sealing.

Sales were maintained in 2001 as a result of increased market share and a number of new applications in the automotive and furniture industries. New equipment and the rebuilding of existing equipment resulted in improved machine utilization, lower labour costs and higher profits.

Packaging

The packaging department converts fasteners from bulk into a variety of smaller packaged quantities. In-house facilities include skin packaging, blister card, clamshells, bagging, kits, boxing and specialty head marking.

Production volumes hit record levels in 2001. New products, expanded sales of head marked fasteners and the expansion of our clamshell program all contributed to the increased volume. Additional automated equipment and better material handling equipment supported the production improvements.

Distribution

The distribution business merchandises and distributes a complete line of over 75,000 SKU's (stock keeping units) of fasteners and fittings to the hardware, industrial and automotive aftermarket from distribution centers across Canada and the United States.

Hardware

2001 was another successful year of growth for our hardware business. The addition of further "Big Box" stores by our customers, as well as our expanded market share within the stores and the introduction of new products provided the basis for this growth.

Our commitment and ability to provide innovative merchandising, product management and new product development earned us the recognition by Home Depot Canada as its hardware "Vendor of the Year" for the fourth consecutive time.

2002 is forecasted to be another excellent year as expansion into the United States in a test market is planned for the second half of the year. Although initial set-up costs will be high, we do expect to have positive returns in the future.

Industrial

Sales to industrial OEM's were negatively impacted by the economic slowdown in 2001. However, the implementation of Vendor Managed Inventory (VMI) programs did create new sales opportunities and should strengthen 2002 sales volumes. The further development of strategic alliances with distributors combined with new products, expanded inventories and improved service performance will strengthen our position in 2002.

Automotive Aftermarket

The automotive aftermarket encountered another year of zero growth. As the wholesaler market continued its consolidation and the general quality of vehicles improved, opportunities for growth have become more limited in this area. Our expansion into the U.S. aftermarket was slow but is expected to improve in 2002. New catalogues and products should help Canadian sales in the coming year.

Fluid Flow Components

The fittings division manufactures airbrake and hose assemblies and distributes a complete line of over 9,700 steel and brass fittings, valves, tubing, hose and tube working tools. Major markets served by this division include propane, plumbing, hardware, industrial and the automotive aftermarket.

Sales declined in 2001 as the overall industrial market weakened and certain product lines were discontinued due to low margin performance.

Late in the year, the division moved to new, larger facilities in Mississauga. The new building will result in some higher operating efficiencies and will provide much needed space for new product lines. The addition of a new management team, the release of a new catalogue and the focus on new target industries should result in improved performance in 2002.

Outlook

There are encouraging signs in the first quarter of 2002 that the North American economy has begun its recovery. Recent actions by the Bank of Canada to raise interest rates support this anticipated economic recovery. We believe that volumes will improve slowly and second half results should show improvements.

One of the issues facing the Company is the impact of rising steel costs throughout the world. On March 5, 2002 President Bush imposed tariffs of up to 30% on certain steel products imported from many non-NAFTA countries. As a consumer of steel, we are concerned with the impact of higher costs for raw material, as well as finished products, and the resultant ability of our customers to absorb these cost increases. In the immediate future, the significant cost increases in steel could hamper economic recovery and negatively impact our financial performance.

Today, 92% of the Company's revenues are generated within Canada. With the opportunities which currently exist outside of Canada, the Company plans over the next three years to expand export sales to 20% of revenues and to achieve a greater balance in the revenues generated from the key markets the Company services.

In 2002 we will expand our distribution facilities in the United States and strengthen logistical capabilities to support our future initiatives in that market. In Canada, we will expand existing facilities and plan major improvements to our distribution systems to further improve our service levels and cost control initiatives.

This MD&A contains statements that are forward-looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by such forward-looking statements.

Auditors' Report

To the Shareholders of
H. Paulin & Co., Limited

We have audited the consolidated balance sheets of H. Paulin & Co., Limited as at December 31, 2001 and 2000 and the consolidated statements of operations and retained earnings and of cash flows for the years then ended. Thes financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assuranc whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, th financial position of the Company as at December 31, 2001 and 2000 and the results of its operations and its cash flows for the years then ended in accordanc with Canadian generally accepted accounting principles.

Deloitte & Touche LLP
Chartered Accountants

Toronto, Ontario
March 1, 2002

Consolidated Balance Sheets

H.Paulin & Co. Limited and its wholly owned subsidiaries
as at December 31 (in thousands of dollars) (Incorporated under the Laws of Ontario)

	2001	2000
ASSETS		
CURRENT		
Accounts receivable	**$ 16,903**	$18,326
Inventories	**32,760**	31,917
Sundry assets and prepaid expenses	**537**	789
	50,200	51,032
CAPITAL ASSETS (Note 2)	**13,027**	11,309
	$ 63,227	$62,341
LIABILITIES		
CURRENT		
Bank indebtedness (Note 3)	**$ 9,450**	$ 9,643
Accounts payable and accrued charges	**13,480**	14,487
Income taxes payable	**266**	612
Current portion of long-term debt (Note 4)	**788**	351
	23,984	25,093
LONG-TERM DEBT (Note 4)	**4,942**	5,731
FUTURE INCOME TAXES	**1,822**	1,822
	30,748	32,646
SHAREHOLDERS' EQUITY		
CAPITAL STOCK (Note 5)	**1,016**	1,016
RETAINED EARNINGS	**31,463**	28,679
	32,479	29,695
	$ 63,227	$62,341

APPROVED BY THE BOARD

Richard Paulin
Director

Stanley F. Paulin
Director

H.Paulin & Co. Limited and its wholly owned subsidiaries

Consolidated Statements of Operations and Retained Earnings

for the years ended December 31 (in thousands of dollars, except per share amounts)

	2001	2000
SALES	**$110,127**	$ 113,417
INCOME FROM OPERATIONS BEFORE THE FOLLOWING CHARGES	**$ 22,871**	$ 24,263
Selling, general and administrative expenses	**14,628**	15,350
Depreciation and amortization	**1,790**	1,427
Interest, including interest on long-term debt of $396 (2000 - $421)	**1,192**	1,039
	17,610	17,816
INCOME BEFORE INCOME TAXES	**5,261**	6,447
INCOME TAXES (Note 6)	**2,057**	2,471
NET INCOME FOR THE YEAR	**3,204**	3,976
RETAINED EARNINGS, BEGINNING OF YEAR	**28,679**	25,165
DIVIDENDS	**(420)**	(462)
RETAINED EARNINGS, END OF YEAR	**$ 31,463**	$ 28,679
PER SHARE INFORMATION (Note 5)		
Income per share	**$ 3.05**	$ 3.79
Diluted income per share - restated (Note 1(b))	**$ 3.05**	$ 3.79
Dividends per share	**$ 0.40**	$ 0.44

Consolidated Statements of Cash Flows

for the years ended December 31 (in thousands of dollars, except per share amounts)

	2001	2000
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
OPERATING		
Net income for the year	**$ 3,204**	$ 3,976
Items not affecting cash		
Depreciation and amortization	**1,790**	1,427
Future income taxes	**-**	220
	4,994	5,623
Changes in non-cash components of working capital		
Accounts receivable	**1,423**	(1,458)
Inventories	**(843)**	(4,126)
Sundry assets and prepaid expenses	**252**	(267)
Accounts payable and accrued charges	**(1,007)**	1,477
Income taxes payable	**(346)**	280
	4,473	1,529
FINANCING		
Dividends paid	**(420)**	(462)
Change in bank indebtedness	**(193)**	2,471
Repayment of long-term debt	**(352)**	(350)
	(965)	1,659
INVESTING		
Purchase of capital assets	**(3,508)**	(3,188)
NET CASH INFLOW (OUTFLOW)	**-**	-
CASH, BEGINNING OF YEAR	**-**	-
CASH, END OF YEAR	**$ -**	$ -
SUPPLEMENTARY CASH FLOWS INFORMATION		
Interest paid	**$ 1,192**	$ 1,039
Income taxes paid	**$ 2,748**	$ 2,104

Notes to the Consolidated Financial Statements

December 31, 2001 and 2000 (in thousands of dollars, except per share amounts)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) *Consolidation*

The consolidated financial statements include the accounts of H. Paulin & Co., Limited and its wholly-owned subsidiary companies.

b) *Change in accounting policy*

Effective for 2001, the Company adopted the treasury stock method for calculation of diluted earnings per share under which deemed proceeds of the exercise of options are considered to be used to re-acquire common shares at an average share price. This calculation has been adopted retroactively with restatment of the prior year. Previously, the Company applied the imputed earnings approach to compute diluted earnings per share. As a result, the diluted calculation has been increased by $0.11 (2000 – $0.14) per share to produce a diluted calculation under the new standard of $3.05 (2000 - $3.79) per share.

c) *Inventories*

Inventories are valued at the lower of cost and net realizable value, with cost being determined on a first-in, first-out basis.

d) *Capital assets*

Capital assets are recorded at cost. Provision for depreciation and amortization is computed using methods which will depreciate the assets over their estimated useful lives as follows:

Building	-	4%, declining-balance
Machinery and equipment	-	10%, straight-line
Furniture, office equipment	-	20-33%, straight-line or declining-balance
Leasehold improvements	-	term of lease, straight-line

e) *Income taxes*

Effective January 1, 2000, the Company and its subsidiaries changed its method of accounting for income taxes from the deferral method to the liability method with the adoption of Section 3465 of The Canadian Institute of Chartered Accountant's Handbook "Accounting for Income Taxes." Under the liability method of tax allocation, future income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are expected to be in effect in the periods in which the deferred income tax assets or liabilities are expected to be settled or realized. This new accounting policy did not have a material effect on the amounts previously reported.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Foreign currencies

Foreign currency transactions, which arise primarily from the Company's foreign subsidiary, which is considered financially and operationally interdependent, and foreign sales and purchases, have been translated into Canadian funds as follows:

Monetary items at the rate of exchange at the balance sheet date.

Non-monetary items at the historical exchange rates.

Transactions occurring during the year at the then-prevailing rates.

Gains or losses on foreign exchange are included in income in the year incurred.

g) Stock option plan

The Company has an employee stock option plan, which is described in Note 5. No compensation expense is recognized for this plan when stock or stock options are issued to employees. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital. If stock or stock options are repurchased from employees, the excess of the consideration paid over the carrying amount of the stock or stock option cancelled is charged to retained earnings.

h) Use of estimates

In preparing the Company's financial statements, management is required to make estimates and assumptions that affect the reported amount of assets, liabilities, and the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. CAPITAL ASSETS

	2001			2000		
	Cost	**Accumulated Depreciation**	**Net Book Value**	Cost	Accumulated Depreciation	Net Book Value
Land	**$ 730**	**$ -**	**$ 730**	$ 730	$ -	$ 730
Building	**601**	**167**	**434**	601	148	453
Machinery and equipment	**24,390**	**13,956**	**10,434**	21,518	12,577	8,941
Furniture, office equipment and leasehold improvements	**4,864**	**3,435**	**1,429**	4,228	3,043	1,185
	$ 30,585	**$ 17,558**	**$ 13,027**	$ 27,077	$ 15,768	$ 11,309

3. BANK INDEBTEDNESS

The Company has a $25 million (2000 - $25 million) operating facility with a Canadian chartered bank bearing interest at the bank's prime lending rate. This facility, which is unsecured and due on demand, requires the Company to meet certain general conditions prescribed by the bank. The Company negotiated a $4 million long-term borrowing from this facility at a fixed interest rate of 6.6% (see Note 4). While this long-term borrowing remains a demand loan, demand prior to maturity is not contemplated.

4. LONG-TERM DEBT

Details of the Company's long-term bank borrowings are as follows:

	2001	2000
6.8% per annum, secured by specific equipment, maturing December 23, 2002	**$ 700**	$ 963
6.6% per annum, interest only, unsecured, maturing June 10, 2003	**4,000**	4,000
6.9% per annum, unsecured, maturing August 27, 2003	**1,030**	1,119
	5,730	6,082
Less current portion	**788**	351
	$4,942	$ 5,731

Future principal repayments are as follows:

2002	$ 788
2003	4,942
	$ 5,730

5. CAPITAL STOCK

Authorized

2,000,000 Class A common shares and 2,000 common shares.

Issued and outstanding

The Company has 1,050,000 (2000 – 1,050,000) Class A common shares issued and outstanding at year-end.

Stock option plan

In 1998, an employee stock option plan was created for the issuance of a maximum of 46,500 Class A common shares, with the options exercisable at $20.25 per share. These options expire in 2008 if not exercised. No options have been exercised to-date.

Income and diluted income per share calculations

The following table sets forth the computation of basic and diluted income per share:

	2001	2000
Numerator		
Net income	**$ 3,204**	$ 3,976
Numerator for basic income per share - net income applicable to common shares	**3,204**	3,976
Numerator for diluted income per share - net income applicable to common shares after assumed conversion	**$ 3,204**	$ 3,976
Denominator		
Denominator for basic income per share - weighted-average shares	**1,050,000**	1,050,000
Effect of dilutive securities		
Employee stock options	**-**	-
Dilutive potential common shares	**-**	-
Denominator for diluted income per share - adjusted weighted-average shares and assumed conversions	**1,050,000**	1,050,000

6. INCOME TAXES

The reconciliation of the provision for income taxes reflected in the financial statements with the amount of tax that would result from the application of Canadian statutory tax rates to reported income, is as follows:

	2001	2000
Income before income taxes	**$ 5,261**	$ 6,447
Approximate applicable statutory tax rate	**42%**	44%
Income taxes at statutory tax rates	**2,210**	2,837
Add (deduct) the tax effect of		
Manufacturing and processing allowance	**(210)**	(364)
Large corporations tax	**30**	25
Rate adjustment	**(230)**	(37)
Other	**257**	10
	$ 2,057	$ 2,471

7. LEASE OBLIGATIONS

The Company leases property, plant and equipment under agreements which are classified as operating leases. The aggregate minimum annual rental payments under these leases are as follows:

2002	$ 3,008
2003	3,010
2004	2,935
2005	1,772
2006	1,114
Thereafter	1,301
	$13,140

8. RELATED PARTY TRANSACTIONS

The Company leases plants in Scarborough and Milton from its principal shareholders and officers. The lease payments to these related parties were approximately $723 thousand in 2001 (2000 - $719 thousand). These payments were determined based on market rates and the obligations are included in Note 7.

9. SEGMENTED INFORMATION

The Company operates principally in Canada in two business segments. The Manufacturing segment produces, assembles and packages fasteners, fittings and parts mainly for automotive Tier 1 and Tier 2 suppliers, industrial OEMs and hardware and industrial distributors. The Distribution segment merchandises and distributes ferrous and non-ferrous fasteners and fittings to the hardware, automotive aftermarket and industrial markets.

The following is a breakdown of the two segments' financial information:

	2001	2000
Sales		
Manufacturing	**$ 89,800**	$ 91,800
Distribution	**30,100**	31,900
Intersegment	**(9,800)**	(10,300)
Total	**$110,100**	$ 113,400
Income before income taxes		
Manufacturing	**$ 4,600**	$ 5,700
Distribution	**700**	700
Total	**$ 5,300**	$ 6,400
Capital assets		
Manufacturing	**$ 26,100**	$ 22,900
Distribution	**4,500**	4,200
Total	**$ 30,600**	$ 27,100
Depreciation and amortization		
Manufacturing	**$ 1,400**	$ 1,200
Distribution	**400**	300
Total	**$ 1,800**	$ 1,500
Net capital expenditures		
Manufacturing	**$ 3,200**	$ 2,400
Distribution	**300**	800
Total	**$ 3,500**	$ 3,200

Export sales account for approximately 8% (2000 - 8%) of sales to external customers.

10. POST-EMPLOYMENT BENEFIT COSTS

During the year, the Company implemented a defined contribution post employment benefit plan (the "Plan") for its employees. The assets of the Plan are held separately from those of the Company in an independently administered fund. Contributions expensed by the Company for the year ended December 31, 2001 amounted to $130,000.

11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value of financial assets and liabilities

Following are the major methods and assumptions used in estimating the fair value of financial instruments:

i) The fair value of current assets and liabilities approximate their carrying amounts due to the relatively short maturity period of the instruments.

ii) The fair value of long-term debt is calculated based on the present value of expected cash flows using rates currently available to the Company for long-term debt with similar terms and remaining maturities. The fair value of long-term debt is estimated at $5.7 million (2000 - $6.1 million).

Credit risk

The Company's receivables are from a large number of customers. No single customer represents more than 10% of total accounts receivable.

Interest rate risk

The Company's primary interest rate exposure is on its bank indebtedness with a chartered bank, which bears interest at floating rates.

Foreign currency risk

The Company's foreign currency exposure arises from purchase and sale contracts transacted in U.S. dollars.

12. SUBSEQUENT EVENT

On February 28, 2002, the Company received a notice of reassessment from the Canada Customs and Revenue Agency ("CCRA") for adjustments to the Company's corporate tax returns for the 1997 and 1998 taxation years. The reassessment in the amount of approximately $1,700,000 plus interest for those years primarily reflects CCRA's opinion that the Company claimed excessive provisions for slow moving or obsolete inventory.

The Company believes it has reported its tax position appropriately and will be filing a Notice of Objection with the CCRA. Substantially all of the income taxes arising, should the appeal be unsuccessful, will be recovered in 1999 and future taxation years due to the reversing nature of the proposed adjustments. Although the eventual outcome of this issue cannot be determined at this time, the Company's accounts provide for management's best estimate of any potential exposure.

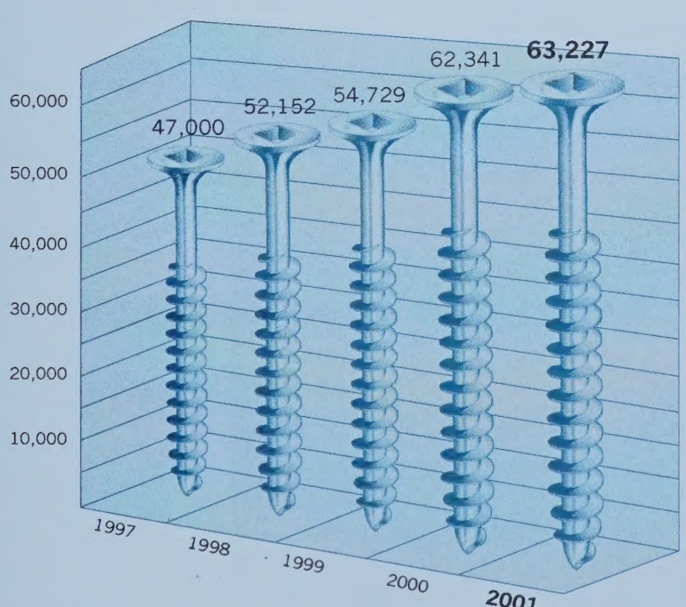
Ten year statistical summary

Years ending December 31, 1992-2001

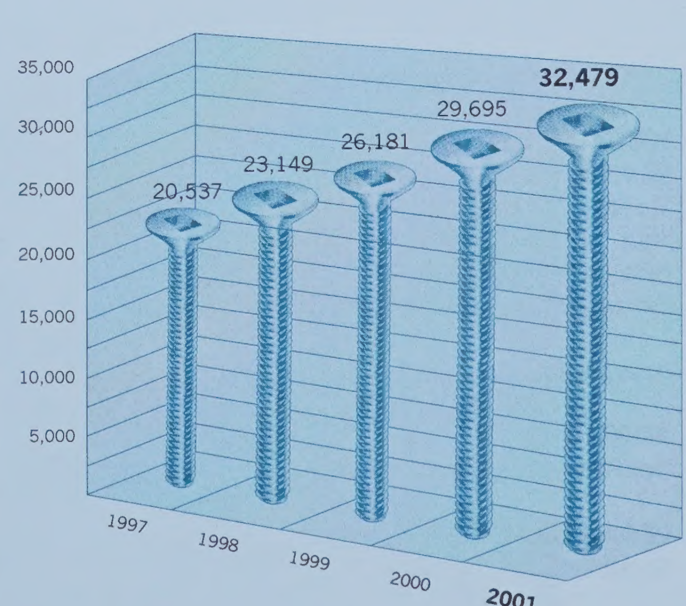
Dollars in thousands except as indicated †	1992	1993	1994	1995	1996	1997	1998	1999	2000	**2001**
Sales	43,481	50,399	64,485	70,031	74,018	87,612	96,068	104,310	113,417	**110,127**
Depreciation and Amortization	612	627	663	662	676	1,042	1,129	1,459	1,427	**1,790**
Income Taxes	56	215	799	917	1,003	1,475	2,240	2,413	2,471	**2,057**
Net income	40	310	1,166	1,228	1,329	2,008	2,970	3,452	3,976	**3,204**
Income per Share*†	0.04	0.30	1.11	1.17	1.27	1.91	2.83	3.29	3.79	**3.05**
Net Income % of Sales	0	0.6	1.8	1.8	1.8	2.3	3.1	3.3	3.5	**2.9**
Additions to Fixed Assets	548	491	2,285	821	2,900	2,137	2,389	1,982	3,188	**3,508**
Working Capital	13,549	13,913	14,415	15,444	14,252	16,523	21,847	24,316	25,939	**26,216**
Shareholders' Equity	15,409	15,666	16,685	17,724	18,802	20,537	23,149	26,181	29,695	**32,479**
Average return on Equity %	0.2	2.0	7.2	7.1	7.3	10.2	13.6	14.0	14.2	**10.3**
Dividends per Share * †	0	0.05	0.14	0.18	0.24	0.26	0.34	0.40	0.44	**0.40**

* Based on 1,050,000 shares outstanding as at December 31,2001

Total Assets $ (000's)



Shareholders' Equity $ (000's)



H. Paulin & Co., Limited

BOARD OF DIRECTORS

Dr. Irving Betcherman, Toronto
Corporate Director

Arnold B. Irwin, Toronto
Corporate Director

Stanley F. Paulin, Toronto
Vice-President, H.Paulin & Co., Limited

Vincent P. Reid, Q.C. Toronto
Corporate Director

Harvey G. Kotler, Q.C. Toronto
Solicitor, Kotler Law Firm

Richard C. Paulin, Toronto
President, H.Paulin & Co., Limited

OFFICERS

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President

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Vice-President, Secretary

Jeffrey Jonsohn
Vice-President, Operations

Carl Krause
Treasurer

AUDIT COMMITTEE

Dr. Irving Betcherman
Richard C. Paulin
Vincent P. Reid

HUMAN RESOURCE AND CORPORATE GOVERNANCE COMMITTEE

Harvey G. Kotler
Richard C. Paulin
Vincent P. Reid

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LEGAL COUNSEL
Goodmans LLP, Toronto

STOCK TRADING SYMBOL
PAP.A on the Toronto Stock Exchange

REGISTRAR AND TRANSFER AGENT
Computershare Trust Company of Canada

BANK
Bank of Nova Scotia, Toronto

ANNUAL MEETING
The Annual Meeting of Shareholders will be held at
The Inn on the Park, Oak Room
1100 Eglinton Avenue East
Toronto, Ontario
Tuesday, June 18, 2002
11:00 a.m. (E.S.T.)

Company products are sold under such trademarks as:

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CONTRACTOR paulin QUALITY®	Contractor Quality
megapak®	Merchandising Program
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